

### BOX I-1 SOCIAL SECURITY IN THE BUDGET

CBO's analysis of the 1988 budget focuses on its implications for total revenues, outlays, and deficits. The federal budget, however, includes both on- and off-budget activities. The Balanced Budget Act of 1985 moved the Old-Age, Survivors, and Disability Insurance (OASDI) trust funds off-budget but nevertheless included them in setting deficit targets. The total budget deficit also determines the federal government's borrowing needs.

CBO's estimates of on- and off-budget revenues, outlays, and the deficit under the Administration's budgetary proposals are shown below. CBO projects that, under the Administration's policies, the total federal budget would be virtually in balance in 1992. But this balance reflects a large surplus in Social Security and a large deficit for other federal government activities.

Almost all of the Administration's proposed policy changes affect on-budget revenues and outlays. For Social Security the President proposes only small revenue increases (from covering more earnings) and small outlay reductions (from limiting administrative costs). These proposals are discussed in Chapters III and V.

	1987	1988	1989	1990	1991	1992
<b>In Billions of Dollars</b>						
<b>Revenues</b>						
On-budget	620.5	664.5	707.0	771.2	835.3	898.0
Off-budget						
(OASDI)	213.7	240.9	262.2	287.5	311.6	332.6
Total	834.2	905.4	969.1	1,058.8	1,146.9	1,230.6
<b>Outlays</b>						
On-budget	815.6	835.3	870.8	908.6	941.1	976.4
Off-budget						
(OASDI)	194.8	204.5	215.4	228.1	241.6	255.4
Total	1,010.4	1,039.8	1,086.2	1,136.7	1,182.6	1,231.9
<b>Deficit (-) or Surplus</b>						
On-budget	-195.1	-170.9	-163.9	-137.4	-105.7	-78.4
Off-budget						
(OASDI)	18.9	36.5	46.7	59.5	70.0	77.2
Total	-176.2	-134.4	-117.1	-77.9	-35.7	-1.2

asset sales have been allocated to the categories of spending to which they apply. For example, most of the loan asset sales are treated as reducing nondefense discretionary spending, while delays in Medicare and farm price support payments hold down entitlement outlays.

With 2 percent to 3 percent real growth in defense appropriations, defense outlays would grow slightly less rapidly than GNP. National defense spending would absorb 6.4 percent of GNP in 1987 and 6.0 percent in 1992. In the CBO baseline, which assumes no real defense growth, the 1992 defense share is only 5.6 percent of GNP.

The budget proposals would accelerate the projected decline in non-defense spending. Nondefense discretionary spending currently represents 3.8 percent of GNP, substantially below the level of 10 or 20 years ago. In the baseline, it declines to 3.6 percent of GNP by 1992, and under the Administration program, it falls to 2.9 percent. Social Security and Medicare benefits grow from 6.5 percent of GNP in 1987 to 6.7 percent in 1992 in CBO's estimate of the budget. The Administration is proposing various reductions in Medicare but no cuts in Social Security benefits (see the box on the preceding page). Under the Administration's policies, other entitlements and mandatory spending decline from 4.5 percent of GNP in 1987 to 3.4 percent in 1992.

## CHAPTER II

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# A COMPARISON OF ECONOMIC ASSUMPTIONS

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Economic assumptions play an important role in budget estimates. Differences in assumptions of GNP growth, unemployment, and inflation have a substantial impact on projected tax receipts and spending in the various entitlement and indexed programs. Interest rate assumptions have also become increasingly crucial as debt servicing costs make up a larger part of total expenditures.

In general, CBO's and the Administration's economic projections are similar. Nevertheless, there are some forecast differences that are within the bounds of historical forecast error but of sufficient magnitude to be of consequence for budget estimates. This chapter reviews the major economic assumptions of CBO and the Administration. CBO's assumptions are used in later chapters in reestimating the Administration's 1988 budget proposals.

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## THE SHORT-RUN OUTLOOK

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After two years of economic growth around 2.5 percent, CBO forecasts a moderate pickup in economic activity for 1987 and 1988 (see Table II-1). Real GNP is expected to grow at just under 3 percent, and unemployment is expected to fall to around 6.5 percent by the end of this period. The Consumer Price Index (CPI) is expected to increase at almost a 4.5 percent annual pace over the next two years, up from only around a 1 percent rate last year. Both long-term and short-term interest rates are projected to average one-half a percentage point less than in 1986.

The Administration's forecast for 1987 is quite similar to that of CBO, although the Administration has slightly higher real GNP and somewhat lower inflation and interest rates. The differences for 1988 are more pronounced, however, with the Administration's forecast for real economic growth almost one percentage point higher and its inflation forecast almost one percentage point lower than that projected by CBO. The Administration's short-term interest rate forecast is very close to that of CBO, but its long-term interest rate forecast is about one-half a percentage point lower than that of CBO in both 1987 and 1988.

TABLE II-1. COMPARISON OF ADMINISTRATION AND CBO SHORT-RUN ECONOMIC FORECASTS (By calendar year)

Economic Variable	Actual	Forecast	
	1986	1987	1988
<b>Fourth Quarter to Fourth Quarter (Percent change)</b>			
Real GNP			
Administration	2.2	3.2	3.7
CBO	2.2	3.0	2.9
Nominal GNP			
Administration	4.4	6.9	7.3
CBO	4.4	6.5	7.1
Consumer Price Index <u>a/</u>			
Administration	0.9	3.8	3.6
CBO	0.9	4.4	4.4
<b>Calendar-Year Average (Percent)</b>			
Three-Month Treasury Bill Rate			
Administration	6.0	5.4	5.6
CBO	6.0	5.6	5.7
Ten-Year Government Bond Rate			
Administration	7.7	6.7	6.6
CBO	7.7	7.2	7.2
Civilian Unemployment Rate			
Administration <u>b/</u>	6.9	6.7	6.3
CBO	7.0	6.6	6.5

SOURCE: Congressional Budget Office; Office of Management and Budget.

- a. Urban wage earners and clerical workers.
- b. The Administration's projection is for the total labor force including armed forces residing in the United States, while CBO's is for the civilian labor force excluding armed forces. In recent years, the former has tended to be 0.1 to 0.2 percentage points below the rate for the civilian labor force alone.

Both CBO's and the Administration's forecasts contain a considerable measure of uncertainty. Each was made before the most recent rise in oil prices and the decline in the value of the dollar. These recent movements may prove to be transitory. If they persist, however, they could affect these forecasts. Both higher oil prices and a weaker dollar tend to raise inflation. While higher oil prices tend to slow real economic growth, a weaker dollar should, over time, lead to faster growth in real GNP.

## MEDIUM-TERM PROJECTIONS

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Neither CBO nor the Administration attempts to forecast the economy beyond the end of 1988. In making their projections for 1989 through 1992 (shown in Table II-2), both organizations rely on simple rules of thumb based on historical experience.

CBO bases its medium-term projection of GNP on projections of gross domestic product (GDP), which differs from GNP by excluding the net income earned by U.S. residents on overseas assets. During the postwar period, real GDP growth has averaged about 3.2 percent, and CBO assumes that it will continue at that rate until it reaches CBO's estimate of potential GDP in 1990. After that, CBO assumes that it will continue to grow at 2.6 percent, the estimated growth rate of potential GDP. Because U.S. net international indebtedness is likely to rise for some years to come, the flow of net income from overseas assets is expected to decline. Hence, the growth of GNP should trail behind the growth in GDP over the medium term, falling from 3.0 percent in 1989 to 2.5 percent in 1992. CBO projects that, accompanying this steady growth in GNP, there will be a gradual decline in the civilian unemployment rate to 6 percent in 1991 and 1992.

CBO projects that inflation, as measured by the Consumer Price Index (CPI), will remain flat at 4.3 percent over the 1989-1992 period, with a similar outcome expected for inflation as measured by the GNP Implicit Price Deflator. Despite the assumed rise in inflation from current levels, CBO projects that both nominal and real interest rates will fall gradually over the medium term, with nominal interest rates reaching 5.2 percent for three-month Treasury bills and 5.6 percent for 10-year government bonds by 1992. This Treasury bill rate, together with CBO's projected inflation rate, approximates the historical average for the real short-term interest rate.

The Administration's medium-term projections are based on long-term trends and how it views the implications of its policy proposals. Its projections are similar to CBO's for nominal GNP (the difference between the pro-

TABLE II-2. COMPARISON OF ADMINISTRATION AND CBO ECONOMIC ASSUMPTIONS, 1987-1992 (By calendar year)

Economic Variable	<u>Actual</u> 1986	1987	1988	1989	1990	1991	1992
Nominal GNP (billions of dollars)							
Administration	4,208	4,493	4,816	5,165	5,524	5,879	6,214
CBO	4,208	4,469	4,779	5,124	5,503	5,888	6,288
Real GNP (percent change)							
Administration	2.5	3.1	3.5	3.6	3.6	3.5	3.4
CBO	2.5	2.8	3.0	3.0	3.1	2.7	2.5
Consumer Price Index <u>a/</u> (percent change)							
Administration	1.6	3.0	3.6	3.6	3.2	2.8	2.2
CBO	1.6	3.5	4.3	4.3	4.3	4.3	4.3
GNP Deflator (percent change)							
Administration	2.7	3.3	3.5	3.5	3.2	2.8	2.3
CBO	2.7	3.2	3.8	4.1	4.2	4.2	4.2
Three-Month Treasury Bill Rate (percent)							
Administration	6.0	5.4	5.0	5.3	4.7	4.2	3.6
CBO	6.0	5.6	5.7	5.6	5.5	5.3	5.2
Ten-Year Govern- ment Bond Rate (percent)							
Administration	7.7	6.7	6.6	6.1	5.5	5.0	4.5
CBO	7.7	7.2	7.2	6.6	6.2	5.9	5.6
Civilian Unemploy- ment Rate (percent)							
Administration <u>b/</u>	6.9	6.7	6.3	6.0	5.8	5.6	5.5
CBO	7.0	6.6	6.5	6.3	6.1	6.0	6.0

SOURCE: Congressional Budget Office; Office of Management and Budget.

NOTE: Percent change is for calendar-year averages.

a. Urban wage and clerical workers.

b. The Administration's projection is for the total labor force. See footnote b of Table II-1.

jections is less than 1 percent except in the final year), but the Administration assumes a declining rate of inflation, higher real GNP growth, and lower unemployment. The GNP projection assumes that the number of hours worked in the economy will grow over the medium term at the same rate as it did from 1981 to 1986 and that the output per hour worked will grow over the period at its rate for the 1948-1981 period.<sup>1/</sup> Under these assumptions, the Administration projects that real GNP will grow at about a rate of 3.5 percent for the years 1989 through 1991, falling to 3.4 percent in 1992. CBO assumes about the same rate of growth for hours worked and slightly slower growth in productivity.

The Administration's assumed rate of inflation is lower than CBO's over the medium term. Using the CPI, the Administration projects that inflation will fall steadily from 3.6 percent in 1989 to 2.2 percent in 1992, with a similarly declining rate when inflation is measured using the GNP deflator. At these lower rates of inflation, the Administration's projected real 1992 GNP is 3.8 percent higher than CBO's projection. Though the Administration's projected GNP growth rate exceeds CBO's baseline path, it is well below CBO's alternative "high-growth path" economic projection.<sup>2/</sup>

With higher growth and lower inflation than assumed by CBO, the Administration's projections also contain a faster drop in the unemployment rate, reaching 5.5 percent by 1992 as compared with CBO's assumed 6.0 percent. In line with the Administration's lower inflation projections, nominal interest rates are assumed to fall steadily faster than projected by CBO. By 1992, yields on three-month Treasury Bills are projected to be 3.6 percent by the Administration, compared with 5.2 percent according to CBO. Similarly, interest rates on 10-year government bonds are projected to be 4.5 percent and 5.6 percent by the Administration and CBO, respectively. Real interest rates on both short- and long-term securities, however, are lower under the CBO projections over the entire 1989-1992 projection period.

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1. See *Economic Report of the President* (February 1987), Table 1-6, p. 62.

2. See Congressional Budget Office, *The Economic and Budget Outlook: Fiscal Years 1988-1992* (January 1987), pp.8-9.





## CHAPTER III

# THE ADMINISTRATION'S REVENUE PROPOSALS

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CBO's estimate of total revenues under the President's budget program falls \$11 billion short of the Administration's estimate in 1988 and \$7 billion short in 1989. The CBO estimate exceeds the Administration's by increasing amounts in 1990 to 1992, reaching \$39 billion above the Administration's estimate in 1992. For the most part, these differences reflect different assumptions about the economy and about the revenue effects of tax reform.

The President's revenue proposals are very minor elements in the total revenue picture over the 1988-1992 period. By 1992, they would add only 0.7 percent to revenues. CBO's estimate of the revenue increase generated by these proposals is \$5 billion in fiscal year 1988, \$7 billion in 1989, and \$8 billion each year from 1990 through 1992--about \$1 billion below the Administration's estimate in each year.

The President's budget proposals discussed in this chapter involve taxes and fees that are classified as revenues in the unified budget. The President's budget report also classifies credit reform, asset sale, and other user fee proposals as revenue changes. <sup>1/</sup> In keeping with unified budget accounting conventions, these other changes, which affect the outlay side of the budget, are considered elsewhere in this analysis (see Chapter V).

## CBO REESTIMATES

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Using its own economic assumptions and estimation procedures, CBO projects that revenues under Administration policy, including those off-budget, will total \$905 billion in 1988, \$1,059 billion in 1990, and \$1,231 billion in 1992 (see Table III-1). <sup>2/</sup> Revenues grow more rapidly than GNP

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1. *Budget of the United States Government for Fiscal Year 1988* (January 1987), p. 2-39.
  2. Both CBO and the Administration extend Airport and Airway, Highway, and Superfund taxes at current rates through 1992. These taxes are scheduled to expire before 1992. Off-budget revenues consist of federal Old-Age and Survivors and Disability Insurance Trust Fund (OASDI) revenues.

TABLE III-1. ADMINISTRATION AND CBO ESTIMATES OF  
ADMINISTRATION'S REVENUES,  
BY MAJOR SOURCE (By fiscal year, in billions of dollars)

Revenue Source	1987	1988	1989	1990	1991	1992
<b>Administration Estimates</b>						
Individual Income Taxes	364.0	392.8	417.3	450.8	489.0	523.7
Corporate Income Taxes	104.8	117.2	128.6	139.8	149.2	160.5
Social Insurance Taxes and Contributions	301.5	333.2	357.2	384.0	409.9	431.2
On-budget	87.4	91.1	93.8	97.3	102.2	106.0
Off-budget <sup>a/</sup>	214.0	242.1	263.4	286.6	307.7	325.3
Excise Taxes	32.6	33.4	32.9	33.7	34.3	35.2
Other	39.6	40.0	40.2	40.0	40.8	40.6
Total Revenues	842.4	916.6	976.2	1,048.3	1,123.2	1,191.2
Percent of GNP	19.1	19.4	19.2	19.3	19.4	19.4
<b>CBO Estimates</b>						
Individual Income Taxes	361.3	381.4	413.4	459.2	503.0	546.8
Corporate Income Taxes	100.6	119.3	127.1	139.1	152.0	164.2
Social Insurance Taxes and Contributions	300.8	331.8	356.7	386.8	416.2	441.5
On-budget	87.1	90.8	94.6	99.3	104.6	108.9
Off-budget <sup>a/</sup>	213.7	240.9	262.2	287.5	311.6	332.6
Excise Taxes	32.7	33.2	32.6	33.2	33.8	34.4
Other	38.8	39.8	39.3	40.4	42.0	43.7
Total Revenues	834.2	905.4	969.1	1,058.8	1,146.9	1,230.6
Percent of GNP	19.0	19.3	19.3	19.6	19.8	19.9

SOURCES: *Budget of the United States Government for Fiscal Year 1988* and Congressional Budget Office.

a. Off-budget revenues consist of federal Old-Age and Survivors and Disability Insurance Trust Fund (OASDI) revenues.

over the 1988-1992 period, rising from 19.3 percent of GNP in 1988 to 19.9 percent in 1992.

Almost all of the difference between the CBO and Administration revenue estimates resides in their estimates of baseline revenues (see Table III-2). The major source of reestimates shifts over time. Economic assumptions are the major factor in CBO's reestimate in the 1987-1989 period. Technical assumptions, primarily about tax reform, are the major factor thereafter (see Table III-3).

### Differences in Economic Assumptions

CBO projects lower real growth and higher inflation than does the Administration. In the period 1988 through 1990, CBO's nominal GNP is lower than the Administration's because CBO's lower real growth assumption dominates the difference in assumed inflation rates. In 1991 and 1992, CBO's nominal GNP rises above the Administration's because CBO's higher inflation rates become relatively more important (see Table III-4). CBO's nominal GNP path rises from 1 percent below the Administration's GNP in 1988 to 1 percent above in 1992. (For a discussion of CBO and Administration economic projections, see Chapter II.)

TABLE III-2. CBO'S REESTIMATES OF ADMINISTRATION BUDGET REVENUES (By fiscal year, in billions of dollars)

	1987	1988	1989	1990	1991	1992
Revenues as Estimated by the Administration <u>a/</u>	842	917	976	1,048	1,123	1,191
Reestimates of baseline revenues	-8	-10	-6	11	25	40
Reestimates of proposals	<u>b/</u>	<u>-1</u>	<u>-1</u>	<u>-1</u>	<u>-1</u>	<u>-1</u>
Total CBO Reestimates	-8	-11	-7	10	24	39
Revenues as Reestimated by CBO <u>a/</u>	834	905	969	1,059	1,147	1,231

- a. Revenues include payroll tax receipts of the federal Old-Age and Survivors and Disability Insurance Trust Funds (OASDI), which are off-budget.
- b. Less than \$500 million.

Federal tax bases generally follow nominal GNP growth, and projected revenues vary accordingly. The principal economic assumptions with direct bearing on projected revenues are personal and corporate income levels and the volume of transactions in goods and services subject to federal excise taxes, which can be approximated by GNP. Both CBO's personal income tax base and payroll tax base (wages and salaries) are below Administration estimates over the 1987-1989 period and above them thereafter (see Table III-4). CBO's corporate income tax base (book profits) is below the Administration's estimate over the 1987-1990 period and above it in 1991 and 1992.

Because the individual income tax will be indexed again beginning in 1989 (after a two-year pause as tax reform is phased in), the assumption about the inflation-output mix in income growth also plays an important role in determining revenues. CBO projects higher inflation than does the Administration. CBO's progressively higher assumptions about merchandise imports produce higher customs duty receipts over the 1988-1992 period.

#### Differences in Technical Assumptions

CBO estimates of Administration budget revenues differ from Administration estimates for reasons other than economic assumptions. Chief among these reasons are assumptions about changes in the timing of tax payments, the organizational form in which income is earned (corporate versus noncorporate), and the response of taxpayers to changes in tax law.

TABLE III-3. SOURCES OF REESTIMATES (By fiscal year, in billions of dollars)

	1987	1988	1989	1990	1991	1992
Economic Assumptions	-4	-10	-10	-3	8	23
Technical Assumptions	<u>-4</u>	<u>-1</u>	<u>3</u>	<u>13</u>	<u>16</u>	<u>17</u>
Total Reestimates	-8	-11	-7	10	24	39

SOURCE: Congressional Budget Office.

Technical assumptions have a minor effect on estimated revenues in 1988. They account for only \$1 billion of CBO's \$11 billion lower estimate of total revenues in this year (see Table III-3). Beginning in 1989, however, technical assumptions, especially assumptions about tax reform, exert a growing upward influence on CBO revenues. In 1991 and 1992, technical assumptions, taken together, put CBO's estimates above the Administration's by \$16 billion and \$17 billion, respectively, or about 1 percent of revenues.

Differences in estimates of four provisions of the Tax Reform Act of 1986 sum to roughly three-quarters of the total difference in technical assumptions in the 1990-1992 period. These provisions address individual income taxation of capital gains and Individual Retirement Account contributions, consumer interest deductibility, and the alternative minimum tax. For these estimates, CBO has generally followed assumptions adopted by the Joint Committee on Taxation (JCT), while the Administration has used those of the Treasury Department. CBO and the JCT assume that individual taxpayers will be less successful in finding ways to reduce their taxable incomes and, thereby, their taxes, in response to these changes. These discrepancies are partially offset in other provisions of tax reform. For example, the Treasury projects greater corporate income tax gain by 1990 from several business provisions--in particular, the passive loss and accounting provisions.

TABLE III-4. DIFFERENCES BETWEEN CBO AND ADMINISTRATION  
ECONOMIC ASSUMPTIONS (By calendar year,  
in billions of dollars)

Economic Variable	1987	1988	1989	1990	1991	1992
GNP	-24	-37	-41	-21	10	74
Personal Income Tax Base <u>a/</u>	-13	-22	-18	5	35	71
Wages and Salaries <u>b/</u>	-9	-19	-16	7	34	66
Corporate Book Profits <u>b/</u>	-9	-27	-16	-11	6	18

NOTE: Differences are measured by subtracting the Administration assumptions from the CBO assumptions.

- a. National Income and Product Account wage and salary disbursements plus nonwage personal income adjusted by excluding certain nontaxable components and including capital gains. Calculated by CBO.
- b. National Income and Product Account measures.

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## NEW REVENUE PROPOSALS

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CBO estimates that the President's new revenue proposals would increase revenues by \$36 billion over the 1987-1992 period (see Table III-5). The Administration estimates a revenue increase of \$41 billion. The President proposes, for the third year, to increase Internal Revenue Service (IRS) staffing to improve enforcement and accelerate collection of delinquent liabilities. These initiatives would increase revenues by about \$14 billion and require the appropriation of an additional \$2 billion to the IRS over the 1988-1992 period. The remaining \$22 billion in proposed revenue increases would require new tax legislation--three-quarters in payroll tax increases and one-quarter in new or increased excise taxes and fees. (Housing and Urban Development fees, proposed again this year, can be instituted administratively.)

The President's program also includes repeal of the windfall profit tax on crude oil. Because no windfall profit tax liability is projected to be incurred over the 1988-1992 period--oil prices projected by both CBO and the Administration are too low--repeal would have no effect on revenues over the period.

### Internal Revenue Service Initiatives

The President proposes to increase IRS examination and enforcement staffs by more than 10,000 positions by 1989, at a cost of about \$2 billion over the 1988-1992 period. The initiatives would increase total IRS staff by about 10 percent. The new positions would be in addition to the roughly 5,500 new examination and enforcement positions funded in October 1986 in the continuing resolution for fiscal year 1987. CBO estimates that the proposed new agents and other employees combined with the proposed automation of the examination system will increase tax collections by \$1.8 billion in 1988 and \$14.4 billion over the 1988-1992 period (see Table III-6). This increase in tax collections is in addition to the \$17 billion increase over the 1987-1992 period (\$3.1 billion in 1988) that is already included in CBO baseline revenues, and is attributable to retention of the new agents hired under the continuing resolution.

The revenue gain from an IRS staff increase depends on the size of the staff increase and on revenue yield factors specific to the types of positions or the tasks at hand. CBO has reduced the Administration's estimate of proposed revenue gain by \$0.5 billion in 1988 to reflect the lower productivity expected of IRS employees during the first year of employment. Moreover, because CBO has substituted a lower yield-to-cost ratio for

TABLE III-5. MAJOR REVENUE PROPOSALS IN  
THE ADMINISTRATION'S 1988 BUDGET  
(By fiscal year, in billions of dollars)

	1987	1988	1989	1990	1991	1992	Cumulative 1987-1992 Changes
CBO Baseline Revenues <u>a/</u>	834.1	900.5	962.0	1,051.0	1,138.9	1,222.5	
Proposed Changes <u>b/</u>							
IRS initiatives	n.a.	1.8	2.9	3.1	3.2	3.3	14.4
Requiring Medicare contributions of all state and local employees	n.a.	1.3	1.9	1.9	2.0	2.1	9.3
Other social insurance proposals	n.a.	0.7	1.1	1.1	1.2	1.2	5.3
Black Lung proposals	n.a.	0.3	0.5	0.4	0.4	0.4	2.0
Excise taxes and fees	<u>0.1</u>	<u>0.8</u>	<u>0.7</u>	<u>1.1</u>	<u>1.2</u>	<u>1.2</u>	<u>5.1</u>
Total	0.1	5.0	7.1	7.7	8.0	8.2	36.1
President's Budget Revenues as Reestimated by CBO	834.2	905.4	969.1	1,058.8	1,146.9	1,230.6	

SOURCE: Congressional Budget Office.

NOTES: The President's credit reform, asset sale, and other user fee proposals referred to as revenue changes in the *Budget of the United States Government for Fiscal Year 1988* (January 5, 1987), p. 2-39 are not included here. They are accounted for on the outlay side of the unified budget.

n.a. = not applicable.

- a. Revenues under current law, including extensions of Airport and Airway, Highway Fund, and Superfund taxes at rates in effect upon expiration of these taxes in December 1987, September 1988, and December 1991, respectively. Baseline revenues also include off-budget OASDI revenues.
- b. Net of reduced income taxes and exclusive of costs of proposed changes.

TABLE III-6. CBO ESTIMATES OF THE REVENUE OF THE  
ADMINISTRATION'S PROPOSED IRS INITIATIVES <sup>a/</sup>  
(By fiscal year, in billions of dollars)

Proposal	1988	1989	1990	1991	1992	Cumulative Five-year Changes
Staff Increases						
Examinations staff	0.4	1.2	1.3	1.4	1.5	5.9
Collections staff	0.7	1.0	1.0	1.0	1.0	4.7
Tax shelter staff	0.4	0.4	0.4	0.4	0.3	1.9
Document matching staff	0.2	0.3	0.3	0.3	0.3	1.3
Service center staff	0.1	0.1	0.1	0.1	0.1	0.4
System Automation	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>	<u>0.3</u>
Total	1.8	2.9	3.1	3.2	3.3	14.4

SOURCE: Congressional Budget Office.

- a. Gross revenues. The cost of these initiatives, estimated at approximately \$2.1 billion over the 1988-1992 period, is not included in these revenue estimates.

the proposed new positions on the collections (accounts receivable) staff, it has reduced the Administration's revenue gain estimate for the 1988-1992 period by another \$0.7 billion.

### Social Insurance Proposals

The President's budget proposes to extend coverage (thereby requiring contributions) in the Social Security (OASDHI) and unemployment insurance programs and increase rates in the railroad and civil service retirement programs. It also proposes to repeal the exemption of some earnings from the Social Security tax base. CBO estimates that these proposals, all requiring legislation, would increase revenues by \$2 billion in 1988 and \$14.6 billion over the 1988-1992 period (see Table III-7). Increased coverage by these programs under the President's proposals would raise benefits by only about \$150 million over the 1988-1992 period, but benefits would grow as the newly covered workers age.



TABLE III-7. CBO ESTIMATES OF THE ADMINISTRATION'S  
SOCIAL INSURANCE PROPOSALS  
(By fiscal year, in billions of dollars)

Proposal	1988	1989	1990	1991	1992	Cumulative Five-Year Changes
Require Medicare Contributions of State and Local Government Employees <u>a/</u>	1.3	1.9	1.9	2.0	2.1	9.3
Require Employer Tax on All Tips	0.2	0.3	0.3	0.3	0.3	1.4
Increase Railroad Pension Contributions	0.2	0.3	0.3	0.3	0.3	1.4
Require UI Contributions of Railroad Employees <u>a/</u>	0.1	0.1	0.1	0.1	0.1	0.6
All Other	<u>0.2</u>	<u>0.3</u>	<u>0.4</u>	<u>0.4</u>	<u>0.4</u>	<u>1.8</u>
Total	2.0	3.0	3.1	3.2	3.3	14.6

NOTE: Revenues are net of reduced income taxes. Benefit increases are not included.

a. The proposal would also extend coverage to these employees.

Of these proposals, by far the largest increase in revenues over the 1988-1992 period would be generated by requiring longer-term state and local government employees and their employers to make Hospital Insurance (HI, or Medicare) contributions. This proposal would bring into the Medicare system the largest employee group not yet covered by the program. CBO estimates that payroll taxes would increase by \$1.3 billion in 1988 and \$9.3 billion over the 1988-1992 period. Benefits would be boosted by about \$40 million over the same period. The bulk of the increase in benefits flowing from the extension of coverage would occur in later years.

A similar proposal was introduced in the Senate in the last session of the Congress as an amendment to the Omnibus Budget Reconciliation Act of 1986, but the provision was deleted before the bill was enacted. State and local employees hired after March 31, 1986, are not affected by the proposal, since they were covered under HI in the Consolidated Omnibus Budget Reconciliation Act of 1985.

The President proposes to extend federal-state unemployment insurance (UI) coverage to employees in the railroad industry. This is the fourth budget to include the proposal. The Congress did not act on the earlier budget proposals, although reform of the railroad UI system was considered in the 99th Congress and is likely to be reconsidered this session. CBO estimates that the President's proposal would increase revenues by about \$600 million and benefits by about \$100 million over the 1988-1992 period.

The President also proposes to raise the railroad retirement system's private-pension equivalent (Tier II) tax rate by 3 percentage points in two steps in 1988 and 1989. An additional 1.1 percentage point increase in the rate is proposed, effective January 1, 1988, to increase the industry's share in the financing of vested dual--or windfall--rail retirement benefits. CBO estimates that the rate increases, which would result in a combined employee-employer Tier II rate of 23.1 percent, would increase payroll taxes by \$1.4 billion in revenues over the 1988-1992 period.

The President's budget also proposes increasing Social Security revenues slightly by requiring employers to pay Federal Insurance Contributions Act (FICA) taxes on the total tip income of their employees, rather than on only the portion of tip income necessary to bring an employee's earnings up to the federal minimum wage. CBO estimates that this requirement would increase payroll taxes by \$1.4 billion over the 1988-1992 period. Other social insurance proposals include extending FICA taxes to the inactive duty wages of military reservists, some student earnings, and other earnings now exempt from the FICA wage base, as well as the inclusion of some employer-provided group-term life insurance (over a floor) in wages for FICA purposes. CBO estimates that these proposals would raise \$1.8 billion in revenues over the 1988-1992 period.

#### Black Lung Tax Proposals

The President proposes to increase the manufacturers' excise tax on sales of domestically mined coal by approximately 55 percent, to \$1.70 per ton for coal from underground mines and 85 cents per ton for coal from surface mines, effective October 1, 1987. Rates would be reduced slightly after

three years. These excise taxes finance the Black Lung Disability Trust Fund, which provides benefits to miners who are disabled by black lung disease and are without other recourse for aid from a coal mine operator; it also provides aid to their dependents. The fund, which is running a deficit, has been granted a temporary moratorium on the interest it owes on advances from federal government general revenues. The rate increases are the main component in the Administration's proposed program for eliminating the fund deficit over the next 20 years. CBO estimates that the proposal would increase revenues by \$0.3 billion in 1988 and \$1.3 billion over the 1988-1992 period (see Table III-8).

The President's budget also proposes to require that the income-maintenance portion of Black Lung benefits (about 80 percent) be included in recipients' gross incomes for tax purposes. The portion of benefits that reimburses the recipient for medical costs would remain tax-exempt. CBO estimates that taxation of benefits would increase income taxes by about \$0.6 billion over the 1988-1992 period.

TABLE III-8. CBO ESTIMATES OF THE ADMINISTRATION'S  
BLACK LUNG TAX PROPOSALS  
(By fiscal year, in billions of dollars)

Proposal	1988	1989	1990	1991	1992	Cumulative Five-Year Changes
Increase Black Lung Excise Tax (Net)	0.3	0.3	0.3	0.3	0.3	1.3
Include Some Black Lung Benefits in Gross Income for Tax Purposes	<u>a/</u>	<u>0.2</u>	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>	<u>0.6</u>
Total	0.3	0.5	0.4	0.4	0.4	2.0

a. Revenue increase of less than \$50 million.

Excise Tax and Fee Proposals

The remaining Administration revenue proposals would raise approximately \$5 billion over the 1988-1992 period (CBO's estimate), about half from fees and half from repeal of Highway Trust Fund tax exemptions. By 1990, the proposed fees would raise more revenue than the Highway Trust Fund changes (see Table III-9).

At present, state and local governments are exempt from all Highway Trust Fund taxes. Gasohol and methanol (fuels containing alcohol) are partially exempt from the gasoline and diesel fuel taxes. Most bus operators are exempt from highway taxes. The President's budget proposes repeal of these exemptions. (Last year's budget proposed repeal of some exemptions.) CBO estimates that elimination of the alcohol fuel and bus exemptions would increase revenues by \$0.2 billion in 1988 and \$0.8 billion over the 1988-1992 period. Elimination of the state and local government exemp-

TABLE III-9. CBO ESTIMATES OF THE ADMINISTRATION'S  
EXCISE TAX AND FEE PROPOSALS  
(By fiscal year, in billions of dollars)

Proposal	1987	1988	1989	1990	1991	1992	Cumulative 1987-1992 Changes
Eliminate Highway Tax Exemptions (Net)	n.a.	0.5	0.5	0.5	0.5	0.5	2.5
Adjust and Extend Customs User Fee (Net)	<u>a/</u>	<u>a/</u>	<u>b/</u>	0.4	0.4	0.4	1.3
Other Fees	<u>0.1</u>	<u>0.2</u>	<u>0.2</u>	<u>0.3</u>	<u>0.3</u>	<u>0.3</u>	<u>1.3</u>
Total	0.1	0.8	0.7	1.1	1.2	1.2	5.1

NOTE: n.a. = not applicable.

a. Revenue increase of less than \$50 million.

b. Revenue decrease of less than \$50 million.